

DORSEY, KING, GRAY, NORMENT & HOPGOOD

ATTORNEYS-AT-LAW

318 SECOND STREET

HENDERSON, KENTUCKY 42420

JOHN DORSEY (1920-1986)
FRANK N. KING, JR.
STEPHEN D. GRAY
WILLIAM B. NORMENT, JR.
J. CHRISTOPHER HOPGOOD
S. MADISON GRAY

TELEPHONE
(270) 826-3965
TELEFAX
(270) 826-6672
www.dkgnlaw.com

May 25, 2004

FEDERAL EXPRESS

Case 2004-00196

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
Frankfort, KY 40601

RECEIVED

MAY 26 2004

PUBLIC SERVICE
COMMISSION

RE: Application of Kenergy Corp. for Authorization to Borrow \$3,349,661 From CoBank and Execute Necessary Notes and to Prepay National Rural Utilities Cooperative Finance Corporation (CFC) Notes of the Same Amount

Dear Ms. O'Donnell:

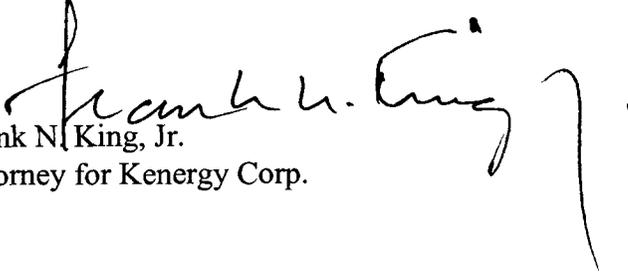
We enclose for filing the original and 10 copies of application pertaining to the above. Please notify the undersigned of the case number when it has been assigned.

Thank you for your assistance in this matter.

Very truly yours,

DORSEY, KING, GRAY, NORMENT & HOPGOOD

By:


Frank N. King, Jr.
Attorney for Kenergy Corp.

FNKjr/le

Encl.

Copy/w/o/encls.: Kenergy Corp.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENERGY CORP. FOR)
AUTHORIZATION TO BORROW \$3,349,661)
FROM COBANK AND EXECUTE NECESSARY)
NOTES AND TO PREPAY NATIONAL RURAL)
UTILITIES COOPERATIVE FINANCE)
CORPORATION (CFC) NOTES OF THE SAME)
AMOUNT)

CASE NO. 2004-00196

RECEIVED

MAY 26 2004

PUBLIC SERVICE
COMMISSION

APPLICATION

Kenergy Corp. ("Kenergy") respectfully submits this application seeking approval of long-term refinancing, pursuant to KRS 278.300. The petition respectfully shows;

1. Kenergy is a nonprofit electric cooperative organized under KRS Chapter 279 and is engaged in the business of distributing retail electric power to member customers in the Kentucky counties of Breckenridge, Caldwell, Crittenden, Daviess, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union and Webster.
2. Kenergy's post office address is Post Office Box 18, Henderson, Kentucky 42419-0018.
3. The current Articles of Consolidation are filed in Case No. 99-136.
4. As of February 29, 2004, Kenergy serves 52,441 member-customers. It has 6,811 miles of distribution lines in its fourteen county service territory, and owns additional facilities necessary to support this distribution system. The total original cost of these distribution lines and additional facilities as of February 29, 2004 is \$194,461,401.

of the same amount outstanding to CFC. The notes being prepaid are listed on the notification letter to CFC filed in Exhibit 2 of this application, along with the original principal balance and the principal outstanding on February 29, 2004.

10. A copy of the approval letter from the Rural Utilities Service (“RUS”) is attached in Exhibit 2 of the application. The RUS is the primary secured creditor under the restated mortgage and security agreement filed in Case No. 99-497.

11. The secured notes of Kenergy are listed in Exhibit 1, Attachment A, of this application.

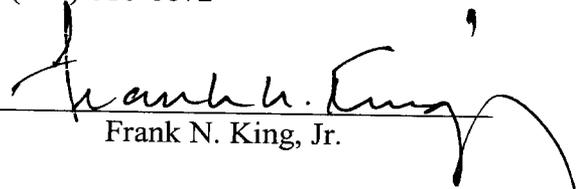
12. As no property is being acquired in conjunction with this financing, 807 KAR 5:001, Section 11(2)(c) is not applicable.

13. Additional information in support of this application is included in attached Exhibit 2, including net present value analysis of the cash flows over the life of the loan. The nominal dollar savings are \$427,813, with a present value of \$313,492 discounted at 2%. The present value, using a discount rate of 4%, is \$237,655.

WHEREFORE, Kenergy asks that the Commission issue an Order authorizing Kenergy to execute and issue evidences of indebtedness as security for the CoBank loan described herein, and for any other relief to which it may be entitled.

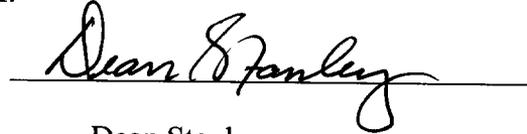
DATED at Henderson, Kentucky, this 25th day of May, 2004.

DORSEY, KING, GRAY & NORMENT
Attorneys for Applicant
318 Second Street
Henderson, Kentucky 42420
Phone: (270) 826-3965
FAX: (270) 816-6672

By: 
Frank N. King, Jr.

VERIFICATION

The undersigned, Dean Stanley, being first duly sworn states that he is the President and Chief Executive Officer of Kenergy Corp.; that he has personal knowledge of the matters set forth in the foregoing application; and that the statements contained therein are true and correct to the best of his knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read "Dean Stanley", is written over a horizontal line.

Dean Stanley

STATE OF KENTUCKY

COUNTY OF HENDERSON

Subscribed, sworn to, and acknowledged before me by Dean Stanley this 25th day of May, 2004.

My commission expires May 24, 2007.

A handwritten signature in cursive script, appearing to read "Delma J. Hayden", is written over a horizontal line.

Notary Public, State of KY at Large

(seal)

KENERGY CORP.

CASE NO. _____

INDEX OF EXHIBITS TO APPLICATION

FINANCIAL EXHIBIT – 807 KAR 5:001, SECTION 6

- Exhibit 1 – Attachment ANotes Executed
- Exhibit 1 – Attachment BStatement of Operations
- Exhibit 1 – Attachment CFinancial & Statistical Report

SUPPLEMENTAL INFORMATION

- Exhibit 2 - Attachment A Board Resolution
- Exhibit 2 – Attachment BCoBank Commitment Letter
- Exhibit 2 – Attachment CRUS Approval Letter
- Exhibit 2 – Attachment DCFC Notification Letter
- Exhibit 2 – Attachment E.....CoBank & CFC Proposals
& Net Present Value Computation

APPLICATION OF KENERGY CORP.

EXHIBIT 1

FINANCIAL EXHIBIT – 807 KAR 5:001, SECTION 6

Unless otherwise noted, the financial information contained in this Exhibit is for the twelve months ending or as of February 29, 2004, which is within the 90 day requirement of 807 KAR 5:001, Section 6.

Section 6(1) Kenergy has no stock authorized.

Section 6(2) Kenergy has no stock issued or outstanding.

Section 6(3) Kenergy has no preferred stock issued.

Section 6(4) All of Kenergy's loans with the RUS, CoBank and CFC are secured by the Restated Mortgage and Security Agreement ("Restated Mortgage"), which was executed on September 1, 1999. A copy of the Restated Mortgage was filed in Case No. 99-497. Kenergy is the mortgagor, while the RUS, CoBank and CFC are the mortgagees. The total debt limit is \$250,000,000. The current actual indebtedness is shown as Attachment A, pages 1 – 3 of Exhibit 1. There are no sinking fund provisions contained in the Restated Mortgage.

Section 6(5) Kenergy has no bonds authorized or issued.

Section 6(6) Attachment A to this Exhibit contains the listing of Kenergy's total notes outstanding.

Section 6(7) Kenergy has no other indebtedness.

Section 6(8) As Kenergy has no stock authorized, issued, or outstanding, no dividends have been paid during the five previous fiscal years.

Section 6(9) Attachments B and C to this Exhibit contain Kenergy's detailed income statement and balance sheet.

EXHIBIT 1

FINANCIAL EXHIBITS FOR KENERGY
 NOTES EXECUTED
 AS OF FEBRUARY 29, 2004

LINE NO.	NOTE NUMBER	DATE OF ISSUE	PRINCIPAL BALANCE	DATE OF MATURITY	RATE OF INTEREST	PAYABLE IN FAVOR OF
1	4050	07/21/70	\$17,574.33	2005	2.00%	U.S. Government
2	B060	07/30/71	\$20,444.39	2006	2.00%	U.S. Government
3	B062	07/30/71	\$21,851.32	2006	2.00%	U.S. Government
4	B070	06/16/72	\$47,883.35	2007	2.00%	U.S. Government
5	B072	06/16/72	\$48,800.58	2007	2.00%	U.S. Government
6	1B150	05/06/81	\$858,371.97	2016	5.00%	U.S. Government
7	1B152	05/06/81	\$858,371.97	2016	5.00%	U.S. Government
8	1B160	02/03/84	\$985,313.43	2019	5.00%	U.S. Government
9	1B162	02/03/84	\$985,313.43	2019	5.00%	U.S. Government
10	1B170	12/05/86	\$1,233,760.63	2021	5.00%	U.S. Government
11	1B172	12/05/86	\$1,233,760.63	2021	5.00%	U.S. Government
12	1B180	06/23/88	\$1,297,815.70	2023	5.00%	U.S. Government
13	1B182	06/23/88	\$1,297,815.70	2023	5.00%	U.S. Government
14	1B190	10/29/90	\$1,492,959.33	2025	5.00%	U.S. Government
15	1B192	06/29/92	\$1,492,959.33	2027	5.00%	U.S. Government
16	1B200	01/28/93	\$1,608,491.13	2028	5.00%	U.S. Government
17	1B201	01/28/93	\$429.35	2028	5.00%	U.S. Government
18	1B205	01/28/93	\$1,608,920.54	2029	5.00%	U.S. Government
19	1B210	12/14/94	\$1,522,334.20	2029	5.00%	U.S. Government
20	1B211***	12/14/94	\$432.42	2029	1.12%	U.S. Government
21	1B215***	12/14/94	\$1,472,907.04	2029	1.12%	U.S. Government
22	1B220	07/01/97	\$1,848,250.76	2032	4.62%	U.S. Government
23	1B225	07/01/97	\$1,844,428.07	2032	4.50%	U.S. Government
24	4240	03/11/70	\$20,711.93	2005	2.00%	U.S. Government
25	B250	06/10/72	\$34,330.27	2007	2.00%	U.S. Government
26	B252	06/10/72	\$34,040.08	2007	2.00%	U.S. Government
27	1B320	07/14/80	\$745,664.47	2015	5.00%	U.S. Government
28	1B322	07/14/80	\$745,664.47	2015	5.00%	U.S. Government
29	1B330	06/01/82	\$547,420.14	2017	5.00%	U.S. Government
30	1B333	06/01/82	\$571,298.74	2017	5.00%	U.S. Government
31	1B340	11/26/86	\$765,318.62	2021	5.00%	U.S. Government
32	1B342	11/26/86	\$765,318.62	2021	5.00%	U.S. Government
33	1B350	05/24/89	\$1,101,590.40	2024	5.00%	U.S. Government
34	1B353	05/24/89	\$1,131,090.86	2024	5.00%	U.S. Government

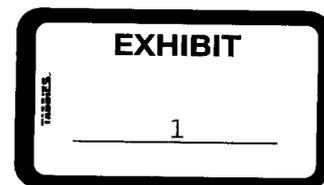


EXHIBIT 1

FINANCIAL EXHIBITS FOR KENERGY
NOTES EXECUTED
AS OF FEBRUARY 29, 2004

LINE NO.	NOTE NUMBER	DATE OF ISSUE	PRINCIPAL BALANCE	DATE OF MATURITY	RATE OF INTEREST	PAYABLE IN FAVOR OF
35	1B360	04/21/93	\$1,125,533.79	2029	5.00%	U.S. Government
36	1B366	04/21/93	\$1,155,278.57	2029	5.00%	U.S. Government
37	1B370	08/12/98	\$2,481,295.06	2033	5.12%	U.S. Government
38	1B375	01/19/99	\$402,879.78	2034	5.00%	U.S. Government
39	1B376	02/10/99	\$379,181.02	2034	5.00%	U.S. Government
40	1B377	05/12/99	\$853,157.22	2034	5.00%	U.S. Government
41	1B378	05/26/99	\$540,332.90	2034	5.00%	U.S. Government
42	1B570	06/19/99	\$301,448.88	2034	5.00%	U.S. Government
43	1B380***	02/01/01	\$18,638,217.58	2036	1.370%	U.S. Government
44	1B381***	02/01/01	\$11,915,913.92	2036	1.120%	U.S. Government
45	1B382***	02/01/01	\$6,329,212.48	2036	1.120%	U.S. Government
46	1B383***	02/01/01	\$8,276,846.27	2036	1.000%	U.S. Government
47	1B384***	02/01/01	\$9,845,703.85	2036	1.370%	U.S. Government
48	2068*	07/01/03	\$6,000,000.00	2037	0.952%	FFB
49	Economic Dev Loan	01/18/00	\$291,671.94	2009	0.00%	U.S. Government
50	Economic Dev Loan	03/08/00	\$299,960.55	2009	0.00%	U.S. Government
51	Economic Dev Loan	08/30/00	\$140,740.80	2010	0.00%	U.S. Government
52	Economic Dev Loan	06/20/01	\$362,499.93	2011	0.00%	U.S. Government
53	Economic Dev Loan	01/20/04	\$450,000.00	2013	0.00%	U.S. Government
54	Economic Dev Loan	02/20/04	\$450,000.00	2014	0.00%	U.S. Government
55	Cushion of credit	n/a	(\$10,826,490.52)	n/a	5.00%	U.S. Government
56	**ML0501T1	07/01/97	\$1,644,927.86	2032	Variable	COBANK**
57	**ML0501T2	12/05/86	\$1,233,331.00	2019	Variable	COBANK
58	**ML0501T4	10/05/88	\$1,239,496.00	2022	Variable	COBANK
59	**ML0501T5	02/03/84	\$1,040,963.00	2017	Variable	COBANK
60	**ML0501T6	10/05/93	\$1,428,242.71	2028	Variable	COBANK
61	**ML0501T7	01/05/94	\$1,348,023.84	2029	Variable	COBANK
62	**ML0501T8	06/15/92	\$1,435,593.00	2025	Variable	COBANK
63	**ML0501T10	10/02/01	\$3,661,466.11	2026	Variable	COBANK
64	ML0501T11	09/19/03	\$6,278,002.78	2014	4.94%	COBANK
65	**9000001	06/10/72	\$29,007.06	2007	Variable	CFC**
66	**9001001	04/10/73	\$56,116.80	2008	Variable	CFC
67	**9002001	02/16/74	\$82,017.65	2009	Variable	CFC
68	**9009001	09/10/87	\$690,264.36	2021	Variable	CFC

FINANCIAL EXHIBITS FOR KENERGY
NOTES EXECUTED
AS OF FEBRUARY 29, 2004

LINE NO.	NOTE NUMBER	DATE OF ISSUE	PRINCIPAL BALANCE	DATE OF MATURITY	RATE OF INTEREST	PAYABLE IN FAVOR OF
69	**9011001	09/16/96	\$991,519.23	2024	Variable	CFC
70	**9012001	09/25/98	\$1,500,731.52	2029	Variable	CFC
	TOTAL		<u>\$110,334,725.14</u>			(1)

* The FFB interest term can be fixed for terms 90 days to 35 years. Currently these notes have a 90 day fixed rate.

** Supplemental lender's interest term can be either a variable or fixed rate. Currently these notes have variable interest rates.

*** The RUS interest term can be fixed for terms from 1-35 years. Currently these notes have a one year fixed rate.

Interest paid on the above notes was \$3,293,847 for the twelve months ending 2/29/2004.

(1) RUS Form 7, Part C, Line 41 plus 45.

EXHIBIT 1

KENERGY
STATEMENT OF OPERATIONS

ITEM (a)	TWELVE MONTHS FEBRUARY 29, 2004 (b)
1. Operating Revenue and Patronage Capital.....	\$279,422,560
2. Power Production Expense.....	
3. Cost of Purchased Power.....	\$253,413,746
4. Transmission Expense.....	
5. Distribution Expense - Operation.....	\$3,245,768
6. Distribution Expense - Maintenance.....	\$6,344,659
7. Consumer Accounts Expense.....	\$2,472,836
8. Customer Service and Informational Expense.....	\$123,940
9. Sales Expense.....	\$168,916
10. Administrative and General Expense.....	\$2,438,027
11. Total Operation & Maintenance Expense (2 thru 10).....	\$268,207,892
12. Depreciation and Amortization Expense.....	\$5,324,493
13. Tax Expense - Property & Gross Receipts.....	
14. Tax Expense - Other.....	\$287,988
15. Interest on Long-Term Debt.....	\$3,286,851
16. Interest Charged to Construction - Credit.....	(\$88,658)
17. Interest Expense - Other.....	\$140,162
18. Other Deductions.....	\$52,863
19. Total Cost of Electric Service (11 thru 18).....	\$277,211,591
20. Patronage Capital & Operating Margins (1 minus 19).....	\$2,210,969
21. Non-Operating Margins - Interest.....	\$959,420
22. Allowance for Funds Used During Construction.....	
23. Income (Loss) from Equity Investments.....	(\$1,806)
24. Non-Operating Margins - Other.....	(\$58,170)
25. Generation and Transmission Capital Credits.....	
26. Other Capital Credits & Patronage Dividends.....	\$75,650
27. Extraordinary Items....(See Page 2, Part D).....	
28. Patronage Capital or Margins (20 thru 26).....	\$3,186,063

EXHIBIT 1

FINANCIAL AND STATISTICAL REPORT	BORROWER DESIGNATION	
	KENERGY	
INSTRUCTIONS - See RUS Bulletin 1717B-2	PERIOD ENDED	RUS USE ONLY
	FEBRUARY 29, 2004	

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS	LIABILITIES AND OTHER CREDITS
1. Total Utility Plant in Service..... 190,869,208	30. Memberships..... 291,780
2. Construction Work in Progress..... 3,592,193	31. Patronage Capital..... 53,967,708
3. Total Utility Plant (1+2)..... 194,461,401	32. Operating Margins - Prior Years..... 78,651
4. Accum. Provision for Depreciation and Amort..... 39,086,833	33. Operating Margins - Current Years..... 943,162
5. Net Utility Plant (3-4)..... 155,374,568	34. Non-Operating Margins..... 106,320
6. Non-Utility Property (Net)..... 41,280	35. Other Margins and Equities..... 2,325,945
7. Investments in Subsidiary Companies.....	36. Total Margins & Equities (30 thru 35)..... 57,713,566
8. Invest. In Assoc.Org.-Patronage Capital..... 684,311	37. Long-Term Debt - RUS (Net)..... 82,933,848
9. Invest. In Assoc.Org.-Other-General Funds..... 5,000	(Payments-Unapplied \$10,826,490)
10. Invest. In Assoc.Org.-Other-Nongeneral Funds..... 3,812,793	38. Long-Term Debt - RUS - Econ. Devel. (Net)..... 1,994,873
11. Investments in Economic Development Projects..... 1,994,873	39. Long-Term Debt Other - REA Guaranteed
12. Other Investments..... 44,183	40. Long-Term Debt - Other (Net)..... 21,652,061
13. Special Funds..... 1,809,794	41. Total Long-Term Debt (37 thru 40)..... 106,580,782
14. Total Other Property and Investments (6 thru 13)..... 8,392,234	42. Obligations Under Capital Leases.....
15. Cash - General Funds..... 297,061	43. Accumulated Operating Provisions..... 3,392,539
16. Cash - Construction Funds - Trustee.....	44. Total Other Noncurrent Liabilities (42 + 43)..... 3,392,539
17. Special Deposits.....	45. Notes Payable..... 3,753,943
18. Temporary Investments..... 2,831,663	46. Accounts Payable..... 19,482,953
19. Notes Receivable (Net).....	47. Consumer Deposits..... 2,356,275
20. Accounts Receivable - Sales of Energy (Net)..... 18,341,935	48. Other Current and Accrued Liabilities..... 1,540,294
21. Accounts Receivable - Other (Net)..... 456,455	49. Total Current & Accrued Liabilities (45 thru 48)..... 27,133,465
22. Materials and Supplies - Electric and Other..... 1,749,515	50. Deferred Credits..... 685,408
23. Prepayments..... 694,919	51. Accumulated Deferred Income Taxes.....
24. Other Current and Accrued Assets..... 6,925,629	52. Total Liabilities and Other Credits
25. Total Current and Accrued Assets (15 thru 24)..... 31,297,178	(36 + 41 + 44 + 49 thru 51)..... 195,505,760
26. Regulatory Assets.....	ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION
27. Other Deferred Debits..... 441,780	53. Balance Beginning of Year.....
28. Accumulated Deferred Income Taxes.....	54. Amount Received This Year(Net).....
29. Total Assets and Other Debits (5+14+25 thru 28)..... 195,505,760	55. Total Contributions in Aid of Construction.....

PART D. NOTES TO FINANCIAL STATEMENTS

THIS SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT.
(IF ADDITIONAL SPACE IS NEEDED, USE SEPARATE SHEET.)

BOARD RESOLUTION

MOVING \$3,349,661 CFC NOTES TO COBANK

WHEREAS, it has been determined on the basis of cash flow analysis, provided by CFC and CoBank, that CoBank is the least cost alternative utilizing current interest rates:

NOW, THEREFORE, be is resolved, that Kenergy Corp., Henderson, Kentucky seek the Rural Utilities Service (RUS) and Kentucky Public Service Commission (KPSC) approval to borrow \$3,349,661 from CoBank and prepay the CFC variable notes.

CERTIFICATION OF SECRETARY

I, Chris Mitchell, Secretary/Treasurer of Kenergy Corp., do hereby certify that the above is a true and correct excerpt from the minutes of the meeting of the board of directors of the Kenergy Corp. held on the 11th day of May, 2004, at which meeting a quorum was present.



Chris Mitchell, Secretary/Treasurer



900 Circle 75 Parkway
Suite 1400
Atlanta, Georgia 30339
Phone: (770) 618-3200
(800) 255-7429
Fax: (770) 618-3202

April 16, 2004

Steve Thompson
Vice President of Accounting
& Finance
Kenergy Corp.
3111 Fairview Dr.
Owensboro, KY 42303

Dear Steve:

CoBank is pleased to provide you with commitment for up to \$3,376,171.42 to refinance your current CFC 2.65% variable rate notes. As you are aware, CFC may charge you a prepayment penalty of approximately 33 basis points, which we can offset by our discounted variable rate currently at 2.02%. Our discounted rate will remain available to you for the length of time in which it takes for you to recoup the lesser of the actual prepayment charges imposed by CFC or 33 basis points. We estimate that to be within 6 to 7 months. After that period, our discounted variable rate will most likely return to our normal level, currently 2.35%.

Additionally, CoBank will waive our attorney's fees with respect to the preparation and closing of the loan documents for this transaction.

We look forward to closing this transaction for you in the next few months. If I can be of further assistance please feel free to contact me at directly at (770) 618-3276 or toll free at (800) 255-7429 ext 83276.

Best regards,

A handwritten signature in cursive script that reads "Bill LaDuca".

Bill LaDuca
Vice President

Exhibit 2

MAY 21 2004

Mr. Dean Stanley
President and CEO
Kenergy Corp.
P.O. Box 18
Henderson, Kentucky 42419-0018

Dear Mr. Stanley:

This will acknowledge receipt of Kenergy Corp.'s, (Kenergy) Manager's Certificate Required Under Loan Contract Section 6.14 For Refinancing Notes, and accompanying documentation. The document certifies that notes being refinanced by Kenergy through CoBank, ACB (CoBank), meet the criteria outlined in Section 2.02 of the Restated Mortgage and Security Agreement (the mortgage) and Section 6.14 of the RUS Loan Contract dated July 1, 2003. These notes will be secured equally and ratably with other notes issued by Kenergy and secured under the mortgage.

If we can be of further assistance, please contact us.

Sincerely,

BRIAN D. JENKINS

BRIAN D. JENKINS
Chief, Operations Branch
Northern Regional Division

cc: CoBank
CFC
Official File (KY 65 Henderson)
Reading File (NOB) / GFR- Norman / DRCS / PASD / NEB
RUS:NRD:NOB:WFrost:720-1381:wf 5/19/04:KY65-CERT-ACK-04.doc



P.O. Box 1389 ♦ 3111 Fairview Drive
 Owensboro, Kentucky 42302-1389
 (270) 926-4141 ♦ FAX (270) 685-2279
 (800) 844-4732

May 14, 2004

Mr. Rod Crile
 National Rural Utilities
 Cooperative Finance Corporation
 20506 Country Lake Blvd.
 Noblesville, IN 46060

Dear Rod:

In accordance with Section 2.5 Prepayment of the CFC Loan Agreement, Kenergy hereby gives notice of our intent to prepay the following notes:

<u>Note No.</u>	<u>2/29/04 Principal Outstanding</u>	<u>Original Principal Outstanding</u>
9000001	\$ 29,011	\$ 125,000
9001001	\$ 56,117	\$ 194,000
9002001	\$ 82,018	\$ 249,000
9009001	\$ 690,264	\$ 907,000
9011001	\$ 991,519	\$1,090,000
9012001	<u>\$1,500,732</u>	<u>\$1,600,000</u>
	<u>\$3,349,661</u>	<u>\$4,165,000</u>

The closing date is anticipated to occur in late June, subsequent to receiving the approval of the Kentucky Public Service Commission.

Sincerely,


 Steve Thompson
 Vice President Finance & Accounting

Exhibit 2

Line
No.

(a) (b) (c) (d) (e) (f) (g) (h)

**Comparison of Cobank vs. CFC
Six CFC notes at 2/29/04
Principal outstanding \$3,349,661**

Year	One year fixed rate:			Variable rate:		
	Nominal	2.75%	3.05%	2.35%	2.65%	
After capital credits	2.03%	2.68%		1.61%	2.43%	
	Cobank	CFC		Cobank	CFC	
	Net cash	Net cash	Difference	Net cash	Net cash	Difference
	flow	flow		flow	flow	
2004	\$61,310	\$78,883	-\$17,573	\$51,369	\$71,643	-\$20,274
2005	\$79,650	\$87,714	-\$8,064	\$66,881	\$79,328	-\$12,447
2006	\$76,315	\$84,187	-\$7,872	\$64,081	\$76,020	-\$11,939
2007	\$72,899	\$80,552	-\$7,653	\$61,212	\$72,624	-\$11,412
2008	\$69,549	\$76,962	-\$7,413	\$58,397	\$69,490	-\$11,093
2009	\$66,434	\$73,620	-\$7,186	\$55,784	\$66,171	-\$10,387
2010	\$63,662	\$70,669	-\$7,007	\$53,456	\$63,417	-\$9,961
2011	\$60,822	\$67,699	-\$6,877	\$51,063	\$60,654	-\$9,591
2012	\$57,095	\$64,638	-\$7,543	\$47,793	\$57,993	-\$10,200
2013	\$54,031	\$61,482	-\$7,451	\$45,200	\$54,909	-\$9,709
2014	\$51,643	\$58,229	-\$6,586	\$43,295	\$51,918	-\$8,623
2015	\$48,928	\$54,875	-\$5,947	\$41,075	\$48,847	-\$7,772
2016	\$45,802	\$51,419	-\$5,617	\$38,459	\$45,835	-\$7,376
2017	\$39,111	\$47,855	-\$8,744	\$32,291	\$42,461	-\$10,170
2018	\$32,517	\$44,182	-\$11,665	\$26,234	\$39,137	-\$12,903
2019	\$16,959	\$39,498	-\$22,539	\$11,229	\$34,911	-\$23,682
2020	\$10,612	\$33,852	-\$23,240	\$5,446	\$29,932	-\$24,486
2021	\$7,503	\$29,931	-\$22,428	\$2,915	\$26,331	-\$23,416
2022	\$5,149	\$26,810	-\$21,661	\$1,020	\$23,541	-\$22,521
2023	\$3,600	\$24,089	-\$20,489	-\$119	\$21,113	-\$21,232
2024	\$2,228	\$21,271	-\$19,043	-\$1,071	\$18,672	-\$19,743
2025	\$816	\$18,351	-\$17,535	-\$2,051	\$16,024	-\$18,075
2026	-\$640	\$15,333	-\$15,973	-\$3,064	\$13,362	-\$16,426
2027	-\$2,144	\$12,221	-\$14,365	-\$4,112	\$10,628	-\$14,740
2028	-\$4,355	\$9,013	-\$13,368	-\$5,858	\$7,853	-\$13,711
2029	-\$6,602	\$6,018	-\$12,620	-\$7,677	\$5,203	-\$12,880
2030	-\$7,747	\$4,127	-\$11,874	-\$8,543	\$3,554	-\$12,097
2031	-\$8,310	\$2,243	-\$10,553	-\$8,827	\$1,920	-\$10,747
2032	-\$8,857	\$300	-\$9,157	-\$9,089	\$248	-\$9,337
2033	-\$8,955	-\$1,273	-\$7,682	-\$8,967	-\$1,128	-\$7,839
2034	-\$7,469	-\$1,250	-\$6,219	-\$7,469	-\$1,107	-\$6,362
2035	-\$5,385	-\$1,137	-\$4,248	-\$5,385	-\$1,005	-\$4,380
2036	-\$3,982	-\$1,020	-\$2,962	-\$3,982	-\$901	-\$3,081
2037	-\$2,587	-\$908	-\$1,679	-\$2,587	-\$800	-\$1,787
2038	-\$1,157	-\$823	-\$334	-\$1,157	-\$724	-\$433
2039	-\$59	-\$738	\$679	-\$59	-\$648	\$589
2040	\$0	-\$651	\$651	\$0	-\$571	\$571
2041	\$0	-\$561	\$561	\$0	-\$491	\$491
2042	\$0	-\$468	\$468	\$0	-\$409	\$409
2043	\$0	-\$373	\$373	\$0	-\$325	\$325
2044	\$0	-\$274	\$274	\$0	-\$239	\$239
2045	\$0	-\$201	\$201	\$0	-\$175	\$175
2046	\$0	-\$144	\$144	\$0	-\$125	\$125
2047	\$0	-\$84	\$84	\$0	-\$74	\$74
2048	\$0	-\$23	\$23	\$0	-\$21	\$21
	\$858,386	\$1,236,091	-\$377,705	\$677,183	\$1,104,996	-\$427,813

54 Net present value of cash flows:

Discount rate	Cobank			CFC		
	Cobank	CFC	Difference	Cobank	CFC	Difference
6%	\$601,881	\$756,875	-\$154,994	\$492,949	\$679,003	-\$186,054
4%	\$675,725	\$877,612	-\$201,887	\$548,839	\$786,493	-\$237,655
2%	\$761,324	\$1,032,922	-\$271,598	\$611,097	\$924,588	-\$313,492
0%	\$858,386	\$1,236,091	-\$377,705	\$677,183	\$1,104,996	-\$427,813

62 Net Cash flow represents interest payments less capital credit allocations.

63 CFC will charge a prepayment fee of \$13,300, which Cobank will reimburse Kenergy.

64 Cobank will waive their legal fees, Kenergy will incur an estimated \$1,000 legal fees.

65 A filing with the Public Service commission is required, with Kenergy incurring minimal staff time and legal fees.